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SUBJECT: UKRAINE: CUSTOMS HEAD SERIOUS ABOUT REFORM

REF: KYIV 196

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11. (SBU) Summary: The head of Ukraine's Customs Service Valeriy Khoroshkovskiy outlined his plan for Customs reform during an introductory meeting with Ambassador on March 21. Khoroshkovskiy boasted of the early success of his anti-smuggling campaign, which was meant to increase customs revenues and secure government support for broader reform of the Customs Service. Ambassador outlined USG assistance available to Customs and urged Khoroshkovskiy to move toward modern principles like risk analysis and post-clearance audits. Khoroshkovskiy agreed and expressed a desire to follow up with USG project implementers. Khoroshkovskiy described information sharing for obtaining customs valuation information from other countries as a priority; Ambassador encouraged him to leverage U.S. assistance to gain access to Europe's New Computerized Transit System (NCTS). Khoroshkovskiy was sensitive to Ambassador's concerns that the anti-smuggling campaign not hurt legitimate business, although he cautioned that some disruptions were unavoidable. Overall, Khoroshkovskiy appeared serious about Customs reform, and we will do what we can to support this goal. End Summary.

12. (U) Ambassador met with Valeriy Khoroshkovskiy, Chairman of Ukraine's State Customs Service, on March 21. Khoroshkovskiy has been in office since December 24, 2007 and has received wide media attention for his plans to reform the Customs Service. (Bio Note: Khoroshkovskiy is one of Ukraine's most well-known businessmen, as he owns substantial assets in the country's media sector. In particular, he owns 61% of one of Inter, one of Ukraine's leading TV channels, and 100% of TV channels K1, K2, Megaspports, Enter-music, and Enter-film. Khoroshkovskiy also served as President of Evraz Group, a top Russian steel and mining company, from 2004 until 2006. Focus magazine recently rated Khoroshkovskiy as the 17th richest Ukrainian, with his wealth estimated at \$1.2 billion. He previously held government positions as Minister of Economy and European Integration (2002-2004) and Deputy Secretary

of the National Security and Defense Council (2006-2007).
End note.)

New Sheriff in Town

¶3. (SBU) Khoroshkovskiy described how upon assuming his position he was "shocked" by the poor performance of Customs. He highlighted a lack of specialized personnel and rampant corruption as particularly difficult problems. Khoroshkovskiy described how the government's STOP Campaign to halt smuggling was targeting both "black goods" -- those smuggled across the border without being stopped -- and "grey goods" -- those whose declared customs value is intentionally lowered to avoid customs fees.

¶4. (SBU) His first goal, said Khoroshkovskiy, was to double customs revenues in the first quarter of 2008, and data showed the Customs crackdown had done just that. He explained that this major push was only the first step in his strategy, as the increased revenues would earn him the support of the government to pursue more difficult, structural reforms.

USG Ready to Help

¶5. (U) Ambassador reviewed USG assistance available to Customs through the State Department's Export Control and Related Border Security Assistance (EXBS), the DoD Defense Threat Reduction Agency (DTRA), and DoJ's International Criminal Investigative Training Assistance Program (ICITAP). Khoroshkovskiy expressed serious interest in leveraging this assistance and offered to meet personally with EXBS Advisor to follow up.

¶6. (SBU) Ambassador noted concerns that the GOU was not making full use of two X-ray scanners provided by EXBS to Customs, particularly at the Odessa port. Khoroshkovskiy explained that the failure to properly use the equipment was symptomatic of larger structural problems, as the entire setup of the Odessa port was "broken." Khoroshkovskiy said he planned to construct a new, inland facility to alleviate crowding at the port itself and to allow Customs to make use of more advanced equipment. EXBS Advisor agreed on the need to develop such inland facilities and encouraged Khoroshkovskiy to move away from the practice of conducting such a high percentage of customs examinations at the border.

¶7. (SBU) Ambassador and EXBS Advisor emphasized the importance of using risk analysis and post-clearance audit functions in reforming Customs to match European practice. Khoroshkovskiy agreed but said such reform would only come slowly, as the nature of commonly-used customs duty evasion schemes involving assembly in Ukraine made the audit process difficult. (Comment: In reality, a fully developed post clearance audit capability is Customs' best offense against such schemes. End Comment.)

Information Sharing a Priority

¶8. (SBU) Khoroshkovskiy described as a priority getting access to Europe's New Computerized Transit System (NCTS) and the creation of other customs valuation databases, as he saw such information as key to combating valuation fraud. He noted, however, that he was facing resistance both internally and from other countries. Ambassador encouraged Customs to work with ICITAP to pursue a pilot project to link Ukraine to the NCTS, as Russia had already done.

¶9. (SBU) Khoroshkovskiy said he planned to meet with the Chinese and Turkish Ambassadors to request valuation information and that, if they refused, he would seek to limit imports from those countries in retaliation. (Note: Khoroshkovskiy did not repeat his previous request for the

United States to provide customs valuation information (reftel). Following Khoroshkovskiy's request, we had informed the GOU that U.S. exporters were not permitted by law to disclose information contained in the Shipper's Export Declaration (SED). End Note.)

Damage to Legitimate Business

¶10. (SBU) Ambassador also encouraged Khoroshkovskiy to be sensitive to the negative impact on legitimate business of the government's anti-smuggling campaign. Many companies were facing export/import delays as a result of the campaign, said the Ambassador, and he noted as an example how Customs had recently caused delays for express delivery operator DHL. Khoroshkovskiy recognized that some legitimate trade had been affected -- he said he had personally looked into the DHL case and would hold the Customs officer involved "accountable" -- but argued that some problems were inevitable given the need for such radical reform of Customs' operations. Khoroshkovskiy said he planned to create a separate division within Customs to serve as a liaison with intermediaries, such as brokers and transportation companies, because they played such an important role in the customs clearance process.

Comment: A Breath of Fresh Air

¶11. (SBU) Khoroshkovskiy appeared genuinely interested in reforming the Customs Service and said all the right things in this introductory meeting. As a businessman, rather than a career Customs official, Khoroshkovskiy might be more inclined to tackle the systematic problems at Customs. His initial prosecution of the anti-smuggling campaign, while slowing some legitimate trade, has shown he can be effective and has clout within the Tymoshenko government. His openness to accepting USG advice is in stark contrast to many of his predecessors. We will follow up with Khoroshkovskiy and his staff to try to take advantage of this opportunity for reform.

TAYLOR